

**Tax Laws Amendment
(2005 Measures No.1)
Bill 2005**

**IMPACT ON AUSTRALIAN TOURISM
EXPORTS OF THE APPLICATION OF GST
on FOREIGN TOUR OPERATORS.**

**Supplementary Submission to the
Senate Economics Legislation Committee**



Wednesday, 4 May 2005

Mr Peter Hallahan
Committee Secretary
Senate Economics Legislation Committee
Department of the Senate
Suite SG. 64
Parliament House
Canberra ACT 2600

Dear Mr Hallahan,

The Australian Tourism Export Council (ATEC) is appreciative of the opportunity provided by the Senate Economics Legislation Committee to present evidence on the adverse consequences that will flow from the Government's Tax Laws Amendment (2005 Measures No1) Bill 2005.

Following the Economics Legislation Committee's deliberations in Brisbane on 26 April 2005, ATEC asks the Committee to accept this supplementary submission.

This supplementary submission addresses a number of matters raised during the hearing. It also provides further analysis in support of ATEC's evidence that the proposed new tax will:

- increase the prices of Australian tour packages sold into the international market,
- create a serious competitive disadvantage for Australian inbound tour operators (ITOs) and foreign tour operators (FTOs) that comply with the requirements of the new tax, and
- adversely affect the yield and sustainability of the many small and medium sized businesses that make up the Australian tourism export sector – especially in rural, regional and remote locations.

ATEC notes that the Treasury evidence (that there is “no immediate evidence that Australian residents are purchasing from FTOs” (Draft Hansard page E 47) supports ATEC's statement that it can find no evidence to support the Government's contention that Australian residents may be purchasing domestic product from foreign providers to the disadvantage of Australian businesses.

Executive summary

- **Our most recent analysis of the price effects of the proposed legislation on Australian tour packages (attached) finds price increases of between 3.0% to 7.0%, depending on the structural profile of the tour package.**

- **On the basis of the evidence given at the initial hearing it would seem reasonable to conclude that this legislation will be unenforceable.**
- **The proposed legislation reverses the current financial incentive to register to an incentive to not register – and for those currently registered, to de-register.**
- **The effects of the proposed legislation are likely to be accentuated in rural, regional and remote locations because of the higher cost structures and the tenuous distribution channels that exist in these locations in any case.**
- **Any alternate input-tax model must start at the supply of rights to foreign purchasers by Australian suppliers, otherwise a distortion will occur whereby FTO's achieve a price advantage over Australian owned and operated ITO's.**

Price effects

ATEC's initial submission indicated that the price increase resulting from the new tax could be expected to range between 4.0% and 4.5 % (all other things being equal). **While our most recent analysis supports this, it also broadens the range of the expected price increases from this relatively narrow range out to between 3.0% to 7.0%, depending on the structural profile of the tour package.** Five worked examples for three of our most important markets for tour packages (USA, UK, and Japan) are provided at Attachments 1, 2, 3, 4, and 5 in support of ATEC's figures. We have also included, at Attachment 6, a "Visiting Friends and Relatives" (VFR) package with minimum accommodation with airfares being obtained through the use of frequent flyer points.

For the benefit of the Committee, a **tour package** comprises two or more travel components, such as airfares and ground services (hire cars, coach transport, meals etc) and other components such as accommodation, optional tours and insurances. The committee may not be aware that, increasingly, tour packages are purchased by international visitors without an airfare component being included since travellers are making use of frequent flyer points or special, low cost, airfare deals. To a lesser extent this also applies to the accommodation component. To the extent that this occurs, it results in a larger increase in the price of those packages that have a relatively higher non-accommodation component.

The worked examples also apply a 30% mark up to the net cost of the packages as standard. This mark up reflects the accumulation of the commissions that apply to the various business entities as the package passes through the distribution channel (see Attachment 4 of ATEC's initial submission).

This 30% figure is in line with the general standard (see: Tourism Australia's "The Travel Distribution System" in Planning For Inbound Success (page 8) at: www.tourism.australia.com/Marketing.asp?sub=0389; and the Bureau of Tourism Research's, Turnover of Inbound Tour Operators, 2000, (page 3). It is raised here to

correct any impression that may have been, inadvertently, given in the evidence presented by the Institute of Chartered Accountants in Australia (ICAA) that the totality of the mark up is in the order of 10 to 15% (Draft Hansard page E 25).

Compliance issues

On the basis of the evidence given at the initial hearing it would seem reasonable to conclude that this legislation will be unenforceable.

The Draft Hansard record confirms (Senator Watson at page E 4 and the ATO at E 57) that only 400 or so FTOs are currently registered in accordance with the existing law. This is a fraction of the number of FTOs that sell Australian product (including retail travel agents) and are required by the law to be registered. Currently, more will be in receipt of Commonwealth Government assistance to attend the Australian Tourism Exchange in Perth in June of this year than are registered by the ATO. This low rate of registration needs to be seen against the significant financial incentive to register, provided by the net credit position of FTOs, under the existing law. In effect, if FTOs are not registered now, given the financial incentives available to them, it is hard to conclude that they will register under the proposed new tax law, when this credit position becomes one of net debit.

The proposed legislation reverses the current financial incentive to register to an incentive to not register – and for those currently registered, to de-register.

The ATO made no reference to the number of successful prosecutions it had achieved against existing, tax evading, FTOs. ATEC notes that the Draft Hansard records (page E 57) the ATO's confirmation that it has no jurisdiction to compel overseas operators to comply with the new tax.

ATEC is concerned by the failure of the Government to come to terms with the additional disincentive to register that results from the fact that unregistered FTOs registering after November 2003 incur a retrospective liability for GST payable on accommodation sold, going back to 1 July 2000 – and without any access to the input tax credits that relate to these sales. This provides a further significant disincentive to register.

The result of all this is that it is highly improbable that there will be an increase in registration. This outcome will result in a significant competitive disadvantage for Australian based ITOs and complying FTOs.

This disadvantage comes in two parts:

1. a significant product price differential between legally operating ITOs and FTOs on the one hand, and illegal FTOs on the other, with the illegal operators being substantially advantaged in the international market place.

ATEC is concerned at the Treasury's comment along the lines that it was a fact of commercial life that illegal operators have a commercial advantage over those operating legally (Draft Hansard page E 55). Such a view makes no

allowance for the remedies that are available to the ATO in the domestic economy (the power to seize financial records and investigate the business dealings of suspected illegal operations etc) whereas the ATO and Treasury know that no such authority exists for the ATO in foreign jurisdictions.

2. a complex red tape compliance burden on legally operating ITOs and FTOs that has no application to the illegal, tax evading, FTOs.

This exacerbates the competitive disadvantage faced by legally complying Australian ITOs and complying FTOs.

ATEC is not aware of any other country that requires FTOs to gather GST equivalent taxes and submit BAS equivalent documents to national taxation agencies. ATEC is gathering statements from FTOs with which its members have business relationships and will provide these statements to the Economics Legislation Committee as evidence of this fact, as soon as possible.

Adverse impacts on small business, especially in rural, regional and remote locations

Tourism businesses are predominately small businesses. Small businesses are less able to ride out shocks that occur in their sectors than larger businesses that have a spread of revenue sources. It is clear to ATEC from the evidence provided to the Economics Legislation Committee to date, and from its own consideration of the legislation, that a number of adverse impacts flowing from the proposed legislation will hit small tourism export businesses located in rural, regional and remote locations the hardest.

These hits include:

- a narrowing of the distribution channel resulting from some FTOs completely withdrawing and others partially winding back their promotion and sale of non-metropolitan Australia as a destination, in specific international markets. The effect of this will be to reduce the penetration of this product into the international market;
- a reduction of the yield of non-metropolitan tourism small businesses as they cut their margins in response to the pressures applied to them by FTOs trying to maintain their own margin and the sale price of their tour packages. The effect of this will be an increase in business stress with all the concomitant downstream impacts on employment and the local economy;
- a reduction in the quality of the product offered by rural, regional and remotely located tourism businesses in an attempt to minimise the price affect and to maintain their margins. The effect of this will be to reduce the attractiveness of these destinations to both the international and the domestic markets.

- A fall-off in bookings as the price effects work through the distribution channels and international consumers find better value for money in competitor destinations. The effect of this will be an increase in business stress possibly leading to a greater incidence of business closures.

These affects are likely to be accentuated in rural, regional and remote locations because of the higher cost structures and the tenuous distribution channels that exist in these locations in any case.

Alternative models

A number of submissions to the Senate Economics Legislation Committee's enquiry, including ATEC's, propose alternate models that seek to meet the Government's objective of stemming the outflow of input tax credits from the Australian economy, while ameliorating the worst impacts of the proposed legislation. Most of them concentrate on an "input tax" system that would harmonise the export of Australian tourism product with other countries.

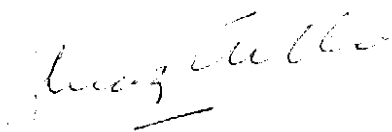
A number of submissions (ICAA, PWC, CPA) propose an input-tax model that is restricted to the supply of rights by off-shore entities. ATEC contends that these models need to be extended so as to not disadvantage Australian Inbound Tourism Operators.

ATEC proposes an "input tax" model that concentrates on the actual supply of rights offshore rather than who supplies those rights. This would put Australian ITOs on an equal footing to FTOs. It should be noted that where Australian suppliers sell directly to foreign consumers in a domestic context (ie when they are actually in Australia), GST would continue to apply, as is currently the case.

Any alternate input-tax model must start at the supply of rights to foreign purchasers by Australian suppliers, otherwise a distortion will occur whereby FTO's achieve both a compliance cost and a price advantage over Australian owned and operated ITO's.

ATEC is available to elaborate on this supplementary submission should that be the wish of the Committee.

Yours sincerely,



David Mazitelli
Chairman

ATTACHMENT 1.**PACKAGE: UK / Aus 18 nights**

Pre 10 February	\$Au	\$Au		Post 10 February	\$Au	\$Au
Net Cost	4351.82			Net Cost	4351.82	
Mark Up @ 30%	<u>1305.54</u>			Mark Up @ 30%	<u>1305.54</u>	
Selling Price		5657.36		Selling Price		5657.36
Output Tax		<u>153.64</u>		Output Tax		<u>387.64</u>
Selling Price (Tax incl)		<u>5811.00</u>		Selling Price (Tax incl)		<u>6045.00</u>
				Price Increase \$	234.00	
				Price Increase %	4.03%	
Package Components			Ratio			
Airfares	1250.00		26.9%	Airfares	1250.00	
Accommodation	1300.00		28.0%	Accommodation	1300.00	
Ground Costs	1280.00		27.5%	Ground Costs	1280.00	
Optional Tours	700.00		15.1%	Optional Tours	700.00	
Insurance	120.00		2.6%	Insurance	120.00	
Other	<u>0.00</u>		0.0%	Other	<u>0.00</u>	
		4650.00				4650.00
GST Credit Calculation				GST Credit Calculation		
Taxable acquisitions				Taxable acquisitions		
Accommodation	118.18			Accommodation	118.18	
Ground Costs	116.36			Ground Costs	116.36	
Optional Tours	63.64			Optional Tours	63.64	
Other	<u>0.00</u>			Other	<u>0.00</u>	
		<u>-298.18</u>				<u>-298.18</u>
Net Cost		4351.82		Net Cost		4351.82
Mark Up @ 30%		<u>1305.54</u>		Mark Up @ 30%		<u>1305.54</u>
Selling Price		<u>5657.36</u>		Selling Price		<u>5657.36</u>
Output Tax Calculation				Output Tax Calculation		
Accommodation	1181.82			Taxable Component	2981.82	
Mark Up @ 30%	<u>354.54</u>			Mark Up @ 30%	<u>894.54</u>	
Taxable Value	<u>1536.36</u>			Taxable Value	<u>3876.36</u>	
GST @ 10%		153.64		GST @ 10%		387.64

ATTACHMENT 2.**PACKAGE: UK / Aus Ground content only / 18 nights**

Pre 10 February	\$Au	\$Au	Post 10 February	\$Au	\$Au
Net Cost	2938.18		Net Cost	2938.18	
Mark Up @ 30%	<u>881.46</u>		Mark Up @ 30%	<u>881.46</u>	
Selling Price		3819.64	Selling Price		3819.64
Output Tax		<u>146.55</u>	Output Tax		<u>366.36</u>
Selling Price (Tax incl)		<u>3966.18</u>	Selling Price (Tax incl)		<u>4186.00</u>
			Price Increase \$	219.82	
			Price Increase %	5.54%	
Package Components			Ratio		
Airfares	0.00		0.0%	Airfares	0.00
Accommodation	1240.00		38.5%	Accommodation	1240.00
Ground Costs	1260.00		39.1%	Ground Costs	1260.00
Optional Tours	600.00		18.6%	Optional Tours	600.00
Insurance	120.00		3.7%	Insurance	120.00
Other	<u>0.00</u>		0.0%	Other	<u>0.00</u>
		3220.00			3220.00
GST Credit Calculation			GST Credit Calculation		
Taxable acquisitions			Taxable acquisitions		
Accommodation	112.73		Accommodation	112.73	
Ground Costs	114.55		Ground Costs	114.55	
Optional Tours	54.55		Optional Tours	54.55	
Other	<u>0.00</u>		Other	<u>0.00</u>	
		<u>-281.82</u>			<u>-281.82</u>
Net Cost		2938.18	Net Cost		2938.18
Mark Up @ 30%		<u>881.46</u>	Mark Up @ 30%		<u>881.46</u>
Selling Price		<u>3819.64</u>	Selling Price		<u>3819.64</u>
Output Tax Calculation			Output Tax Calculation		
Accommodation	1127.27		Taxable Component	2818.18	
Mark Up @ 30%	338.18		Mark Up @ 30%	<u>845.46</u>	
Taxable Value	<u>1465.45</u>		Taxable Value	<u>3663.64</u>	
GST @ 10%		146.55	GST @ 10%		366.36

ATTACHMENT 3.**PACKAGE: USA / Aus 19 nights**

Pre 10 February	\$Au	\$Au		Post 10 February	\$Au	\$Au
Net Cost	5616.36			Net Cost	5616.36	
Mark Up @ 30%	<u>1684.91</u>			Mark Up @ 30%	<u>1684.91</u>	
Selling Price		7301.27		Selling Price		7301.27
Output Tax		<u>157.18</u>		Output Tax		<u>381.73</u>
Selling Price (Tax incl)		<u>7458.45</u>		Selling Price (Tax incl)		<u>7683.00</u>
				Price Increase \$	224.55	
				Price Increase %	3.01%	
Package Components			Ratio			
Airfares	2550.00		43.1%	Airfares	2550.00	
Accommodation	1330.00		22.5%	Accommodation	1330.00	
Ground Costs	1240.00		21.0%	Ground Costs	1240.00	
Optional Tours	660.00		11.2%	Optional Tours	660.00	
Insurance	130.00		2.2%	Insurance	130.00	
Other	<u>0.00</u>		0.0%	Other	<u>0.00</u>	
		5910.00				5910.00
GST Credit Calculations				GST Credit Calculations		
Taxable acquisitions				Taxable acquisitions		
Accommodation	120.91			Accommodation	120.91	
Ground Costs	112.73			Ground Costs	112.73	
Optional Tours	60.00			Optional Tours	60.00	
Other	<u>0.00</u>			Other	<u>0.00</u>	
		<u>-293.64</u>				<u>-293.64</u>
Net Cost		5616.36		Net Cost		5616.36
Mark Up @ 30%		<u>1684.91</u>		Mark Up @ 30%		<u>1684.91</u>
Selling Price		<u>7301.27</u>		Selling Price		<u>7301.27</u>
Output Tax Calculation				Output Tax Calculation		
Accommodation	1209.09			Taxable Component	2936.36	
Mark Up @ 30%	<u>362.73</u>			Mark Up @ 30%	<u>880.91</u>	
Taxable Value	<u>1571.82</u>			Taxable Value	<u>3817.27</u>	
GST		157.18		GST		381.73

ATTACHMENT 4.**PACKAGE: USA / Aus Ground content only 19nights**

Pre 10 February	\$Au	\$Au		Post 10 February	\$Au	\$Au
Net Cost	3066.36			Net Cost	3066.36	
Mark Up @ 30%	<u>919.91</u>			Mark Up @ 30%	<u>919.91</u>	
Selling Price		3986.27		Selling Price		3986.27
Output Tax		<u>157.18</u>		Output Tax		<u>381.73</u>
Selling Price (Tax incl)		<u>4143.45</u>		Selling Price (Tax incl)		<u>4368.00</u>
				Price Increase \$	224.55	
				Price Increase %	5.42%	
Package Components			Ratio			
Airfares	0.00		0.0%	Airfares	0.00	
Accommodation	1330.00		39.6%	Accommodation	1330.00	
Ground Costs	1240.00		36.9%	Ground Costs	1240.00	
Optional Tours	660.00		19.6%	Optional Tours	660.00	
Insurance	130.00		3.9%	Insurance	130.00	
Other	<u>0.00</u>		0.0%	Other	<u>0.00</u>	
		3360.00				3360.00
GST Credit				GST Credit		
Taxable acquisitions				Taxable acquisitions		
Accommodation	120.91			Accommodation	120.91	
Ground Costs	112.73			Ground Costs	112.73	
Optional Tours	60.00			Optional Tours	60.00	
Other	<u>0.00</u>			Other	<u>0.00</u>	
		<u>-293.64</u>				<u>-293.64</u>
Net Cost		3066.36		Net Cost		3066.36
Mark Up @ 30%		<u>919.91</u>		Mark Up @ 30%		<u>919.91</u>
Selling Price		<u>3986.27</u>		Selling Price		<u>3986.27</u>
Output Tax				Output Tax		
Accommodation	1209.09			Taxable Component	2936.36	
Mark Up @ 30%	<u>362.73</u>			Mark Up @ 30%	<u>880.91</u>	
Taxable Value	<u>1571.82</u>			Taxable Value	<u>3817.27</u>	
GST @ 10%		157.18		GST @ 10%		381.73

ATTACHMENT 5.**PACKAGE: Japan / Aus 6 nights**

Pre 10 February	\$Au	\$Au		Post 10 February	\$Au	\$Au
Net Cost	2958.18			Net Cost	2958.18	
Mark Up @ 30%	<u>887.45</u>			Mark Up @ 30%	<u>887.45</u>	
Selling Price		3845.64		Selling Price		3845.64
Output Tax		<u>112.86</u>		Output Tax		<u>242.86</u>
Selling Price (Tax incl)		<u>3958.50</u>		Selling Price (Tax incl)		<u>4088.50</u>
				Price Increase \$	130.00	
				Price Increase %	3.28%	
Package Components			Ratio			
Airfares	1050.00		33.4%	Airfares	1050.00	
Accommodation	955.00		30.4%	Accommodation	955.00	
Ground Costs	680.00		21.6%	Ground Costs	680.00	
Optional Tours	420.00		13.4%	Optional Tours	420.00	
Insurance	40.00		1.3%	Insurance	40.00	
Other	<u>0.00</u>		0.0%	Other	<u>0.00</u>	
		3145.00				3145.00
GST Credit Calculation				GST Credit Calculation		
Taxable acquisitions				Taxable acquisitions		
Accommodation	86.82			Accommodation	86.82	
Ground Costs	61.82			Ground Costs	61.82	
Optional Tours	38.18			Optional Tours	38.18	
Other	<u>0.00</u>			Other	<u>0.00</u>	
		<u>-186.82</u>				<u>-186.82</u>
Net Cost		2958.18		Net Cost		2958.18
Mark Up @ 30%		<u>887.45</u>		Mark Up @ 30%		<u>887.45</u>
Selling Price		<u>3845.64</u>		Selling Price		<u>3845.64</u>
Output Tax Calculation				Output Tax Calculation		
Accommodation	868.18			Taxable Component	1868.18	
Mark Up @ 30%	<u>260.46</u>			Mark Up @ 30%	<u>560.46</u>	
Taxable Value	<u>1128.64</u>			Taxable Value	<u>2428.64</u>	
GST @ 10%		112.86		GST @ 10%		242.86

ATTACHMENT 6.**PACKAGE: Minimum Accommodation (VFR) and no airfare (F/F points)**

Pre 10 February	\$Au	\$Au	Post 10 February	\$Au	\$Au
Net Cost	1892.73		Cost	1892.73	
Mark Up @ 30%	<u>567.82</u>		Mark Up @ 30%	<u>567.82</u>	
Selling Price		2460.55	Selling Price		2460.55
Output Tax		<u>47.27</u>	Output Tax		<u>230.45</u>
Selling Price (Tax incl)		<u>2507.82</u>	Selling Price (Tax incl)		<u>2691.00</u>
			Price Increase \$	183.18	
			Price Increase %	7.30%	
Package Components			Ratio		
Airfares	0.00		0.0% Airfares	0.00	
Accommodation	400.00		19.3% Accommodation	400.00	
Ground Costs	1200.00		58.0% Ground Costs	1200.00	
Optional Tours	350.00		16.9% Optional Tours	350.00	
Insurance	120.00		5.8% Insurance	120.00	
Other	<u>0.00</u>		0.0% Other	<u>0.00</u>	
		2070.00			2070.00
GST Credit Calculation			GST Credit Calculation		
Taxable acquisitions			Taxable acquisitions		
Accommodation	36.36		Accommodation	36.36	
Ground Costs	109.09		Ground Costs	109.09	
Optional Tours	31.82		Optional Tours	31.82	
Other	<u>0.00</u>		Other	<u>0.00</u>	
		<u>-177.27</u>			<u>-177.27</u>
Net Cost		1892.73	Net Cost		1892.73
Mark Up @ 30%		<u>567.82</u>	Mark Up @ 30%		<u>567.82</u>
Selling Price		<u>2460.55</u>	Selling Price		<u>2460.55</u>
Output Tax Calculation			Output Tax Calculation		
Accommodation	363.64		Taxable Component	1772.73	
Mark Up @ 30%	<u>109.09</u>		Mark Up @ 30%	<u>531.82</u>	
Taxable Value	<u>472.73</u>		Taxable Value	<u>2304.55</u>	
GST @ 10%		47.27	GST @ 10%		230.45